

# Intel Corporation



1994  
Annual  
Report

# Intel is

In 1971, Intel introduced the world's first microprocessor, which sparked a computer revolution that has changed the world. About 75 percent of the personal computers in use around the world today are based on Intel-architecture microprocessors. Today, Intel supplies the personal computing industry with the chips, boards, systems and software that are the "ingredients" of the most popular computing architecture. These products help create advanced computing systems for personal computer users.

## Major customers

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- Manufacturers of computer systems and computer peripherals.
- PC users who buy Intel's PC enhancements, business communications products and networking products at retail stores.
- Other manufacturers, including makers of automobiles and a wide range of industrial and telecommunications equipment.
- Scientists and engineers working on the world's greatest computational problems.

## Principal products

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### *Processor products*

Microprocessor chips, also called central processing units (CPUs), are frequently described as the "brains" of a computer, because they control the central processing of data in PCs and other computers. Microprocessor peripherals are special-purpose chips that work with a CPU to manage selected system functions. Motherboards are sold to original equipment manufacturers (OEMs), who incorporate them into their products.

### *Networking and communications products*

Network and communications products enhance the capabilities and ease of use of PC systems and networks, and are sold through retail outlets. They include ProShare™ Personal Conferencing products, which let PC users in different locations share documents or engage in a video conference via PC.

### *Semiconductor products*

Flash memory provides easily reprogrammable memory for cellular phones, computers and other systems. It retains data even when the computer's power is turned off. Embedded controllers are programmed to control specific functions in products such as automobile engines, laser printers, disk drives and home appliances.

*On the cover:* 1994 was the year of the consumer PC, as families flocked to outlets such as this Best Buy store in Hawthorne, California to buy affordable new multimedia PCs powered by the Intel Pentium® processor.

# To our stockholders

What a year. For our high-performance Pentium® processor, 1994 was the best of times—and the worst of times. Just as the Pentium processor was emerging at year-end as one of 1994's great successes, it was engulfed in a controversy over a floating-point problem in the processor. We ultimately took a \$475 million pretax charge in the fourth quarter to cover replacement and write-off of these microprocessors.

This episode reflects a strategic turning point. Quite simply, the PC is now a standard consumer tool used by a wide range of people, from preschoolers to university researchers.

Many of these PC customers have more demanding—and varied—expectations for product quality, performance and service than computer users have in the past. In many ways, Intel has facilitated this transition:

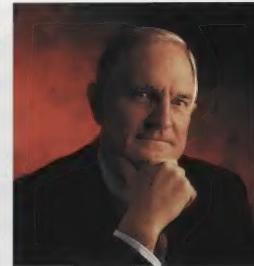
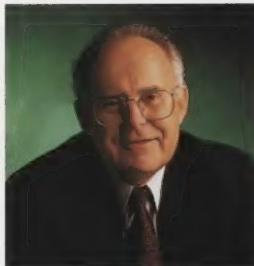
- We have invested heavily in development and manufacturing capacity so we can supply high-end processors in the volumes needed for a consumer marketplace. We continued the trend of record strategic spending this year, with investments of \$3.55 billion in capital and R&D, a 22 percent increase over 1993 levels.

- We have been promoting our microprocessors with wide-ranging education and marketing programs describing the benefits of Intel microprocessors.

- We have been working steadily to bring down the price and expand the capabilities of our chips to make PCs a better buy than ever before.

Overall, our strategy seems to be working. Even throughout last December's crisis, sales of Pentium processor-based systems continued to set new records.

Of course, the Pentium processor problem also illustrated that we must continue our efforts to understand and respond to a consumer-driven



growth rate that we have achieved over the past ten years. Earnings per share rose only slightly versus 1993, due in part to the charge to cover the Pentium processor divide problem.

Nearly half of our total sales were outside the U.S. Sales were strong in all geographies.

Of course, as the leading supplier of microprocessors to the PC industry, Intel continued to attract significant competition, both from the PowerPC\* and other RISC chips, and from

imitators of the Intel architecture. Despite this competition, we continued to be No. 1 in the microprocessor market segment.

## Our vision: PCs everywhere

We believe that the personal computer has the potential to become the universal general-purpose information appliance. The PC is the one tool that can incorporate interactive entertainment, networked information services and real-time multimedia communications in one place. For more on how we are helping to make this goal a reality, see the "Highlights of 1994" section on page 2.

Intel and its products are at the core of the information technology industry, which is, in turn, a critical element of the world economy. We feel fortunate to be a part of this exciting industry.

market. For example, we approached the question of who should get a replacement processor from an engineering rather than a customer satisfaction point of view. We were initially selective about who should get a new processor, because we thought it was unnecessary for most people. This policy was unpopular, and we eventually adopted a no-questions-asked replacement policy. We received a crash course in consumer relations. In the future, we intend to be better prepared to meet the public expectations that come with our dramatically higher profile.

## A strong position in a competitive market

Overall, 1994 was a very successful year. Revenue grew 31 percent, well above the 22 percent annualized

Gordon E. Moore  
Chairman

Andrew S. Grove  
President and  
Chief Executive Officer

Craig R. Barrett  
Executive Vice President and  
Chief Operating Officer

# Highlights of 1994

Intel had an exciting 1994, with significant progress toward our top strategic goals. As the No. 1 supplier of microprocessors and other semiconductor products to the computing industry, Intel's success is linked to the continued growth of the personal computing industry. Fueling PC growth is a top priority for the company. Intel works to stimulate the PC market in two key ways. We provide a steady stream of high-performance microprocessors at prices that help make PCs affordable. And we work with industry leaders to develop the hardware and software technologies that will make PCs increasingly useful and productive.



## The Pentium® processor takes off

Intel's growth in 1994 was largely driven by continued strong sales of our high-end microprocessors, including rapid growth of the Pentium® processor. Available for systems ranging from notebook computers to network servers, the Pentium processor delivers the computing power necessary to drive today's most exciting software, such as multimedia and communications packages.

The Pentium processor production curve has been our most successful product transition ever. In 1994, the first full year of the chip's production, Intel shipped millions of Pentium processors to PC makers around the world. In the fourth quarter, Pentium

processor units accounted for 23 percent of our desktop processor volume, and that proportion is growing rapidly. In 1995, we will introduce the P6, our next-generation processor. We expect the Pentium processor to become the mainstream PC processor of choice.

More and more OEM customers chose to buy Pentium processors already assembled onto motherboards. To meet the demand, we increased production capacity at all our systems manufacturing plants.

## Twice the processing bang for the buck

One year ago, the typical PC purchase was a computer featuring the Intel486™ chip with the old style data bus,<sup>†</sup> which often meant sluggish performance and limited graphics capabilities. Today, the same amount of money can buy a Pentium processor-based machine with the new, faster PCI bus, delivering revved-up performance and a range of multimedia capabilities. In the coming year, we hope once again to double processor performance at key PC prices, helping to make more powerful PCs affordable for everyone.

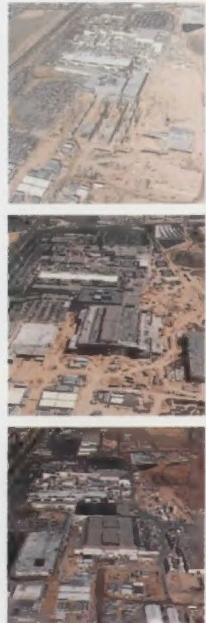
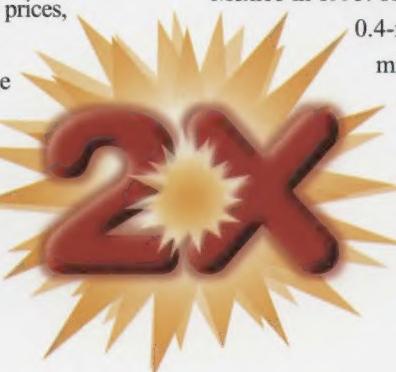
<sup>†</sup>The "bus" is the pipeline that transmits messages among the CPU, memory, input devices such as the keyboard and mouse, and output devices such as the monitor.

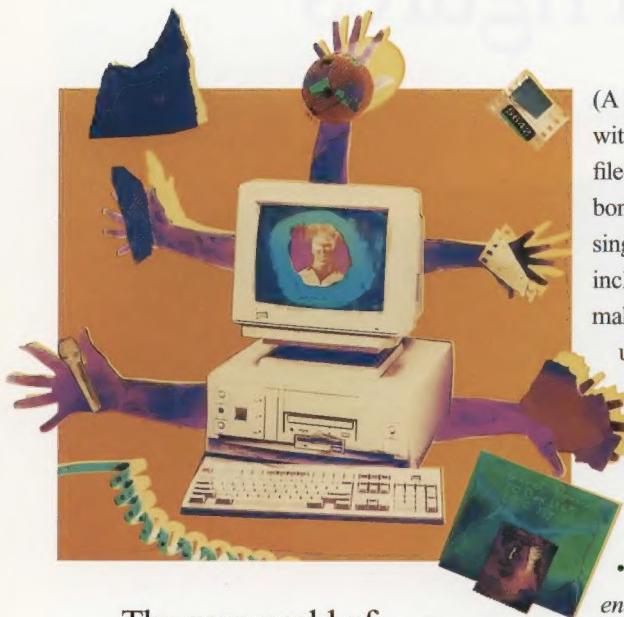
## Building for the future

Our ability to bring the Pentium processor to full production capacity quickly and meet the demands of the PC market segment this year was due to the groundwork we've laid in past years. For example, we opened new state-of-the-art semiconductor plants this year in Ireland and New Mexico. At a total investment of approximately \$1.5 billion, these plants have already produced millions of Pentium processors.

We have plans for even more sophisticated manufacturing facilities to make new, more complex products. For example, we broke ground this year on a \$1.3 billion chip plant in Arizona, which should start production in early 1997. We will also open a high-end fabrication facility in New Mexico in 1995. This plant will make

0.4-micron chips—microprocessors with more transistors than ever before, delivering significantly higher computing power.





## The new world of PC communications

Over the last decade, the PC has evolved from a stand-alone office device to a widely connected information tool, and is becoming the center of communications for both home and business. Already the PC is used to send faxes and e-mail, to share databases, to access on-line information services, even to hold video conferences between users at different offices.

At Intel, we believe that communications and multimedia are decisive areas for the PC industry in the next decade, because they are expected to generate the majority of new applications and attract the majority of new users. The successful future of the PC as an appliance will depend on how useful the PC is as a platform for these technologies. To continue this progress, Intel has introduced a range of hardware and software products:

- **LAN management products:** Intel is a major manufacturer of local area network (LAN) products worldwide.

(A LAN connects individual PCs with devices such as printers and file-storage servers, and is the backbone of electronic mail within a single office.) Intel's LAN products include hardware and software that make it easy to install, manage and use local area networks. We are proud that our LAN management software, LANDesk® Manager, won *PC/Computing* magazine's "Most Valuable Product" award for 1994.

- **ProShare™ Personal Conferencing products:** In today's business environment, people must be able to work together effectively—whether they are in the next building or halfway around the world. To provide more productive ways of working together, we introduced the ProShare family of personal conferencing products. These PC add-in products let people work together from their desktops, with the immediate interaction and freedom of in-person meetings. With ProShare Personal Conferencing products, users can simultaneously edit documents or applications on their PCs, or even meet "face to face" via PC-based video conferencing.

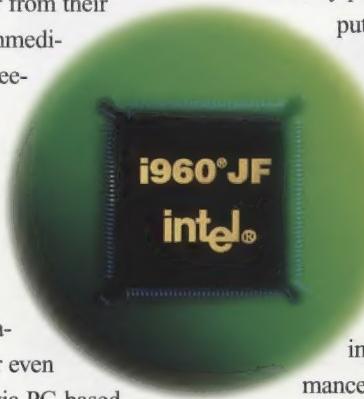
- **Built-in communications:** In 1995, we plan to continue the push to low-cost and improved communications and multimedia by putting audio, video and networking capabilities directly on the PC motherboard. Known as native signal processing, this practice eliminates the need for add-in boards and makes PCs even easier to use.

## Other product news

**Flash memory leader:** In 1994, Intel once again shipped more flash memory chips than any other manufacturer. This memory product enjoys wide market acceptance, particularly in products such as cellular phones and peripheral networking and communications devices for PCs. In a significant extension of the flash product line, we introduced a new kind of semiconductor memory chip that combines the best of two different memory types. The new flash RAM chips execute software commands twice as fast as any previous flash memory, while retaining the instant-on, easily updatable benefits of flash.

- **High-powered RISC chip:** Intel also makes the world's best-selling RISC chip (in terms of units sold), the 32-bit i960® microprocessor used in many products, including computer networking systems and laser printers. In 1994, three new high-end members of the i960 microprocessor family incorporated technological advancements in the chip's design, delivering breakthrough performance for just one dollar per MIPS (million instructions per second).

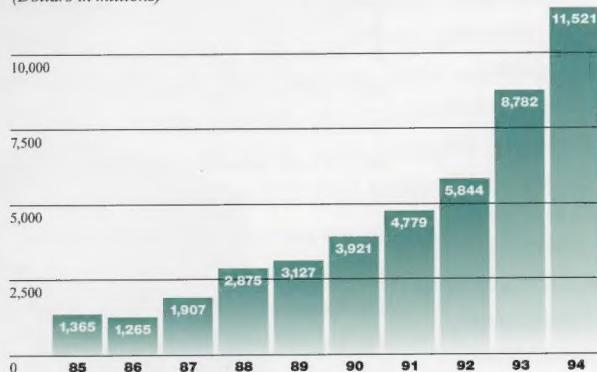
- **The world's fastest computer:** In December, a team of scientists from Sandia National Laboratories and Intel recaptured the world speed record for supercomputing. A linked system based on two Intel Paragon™ XP/S 140 supercomputers beat the existing world record for computing performance by more than 50 percent.



# Intel facts and figures

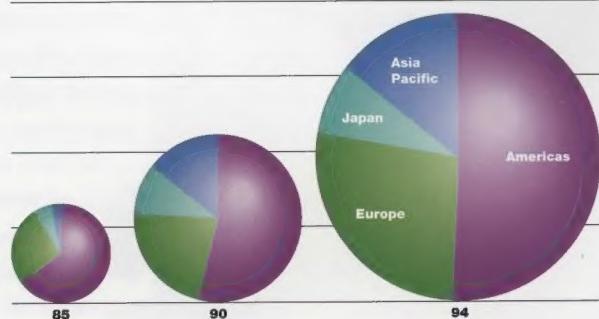
**Net revenues**

(Dollars in millions)



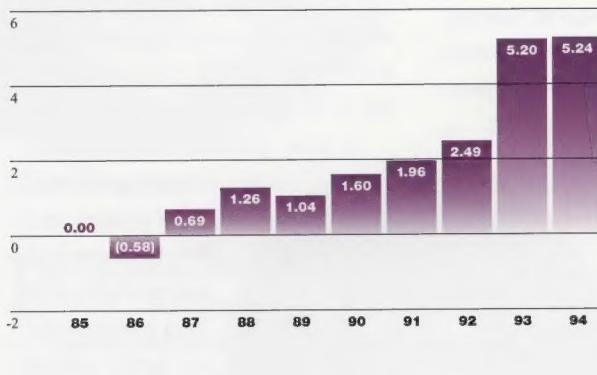
**Geographic breakdown of sales**

(Percent)



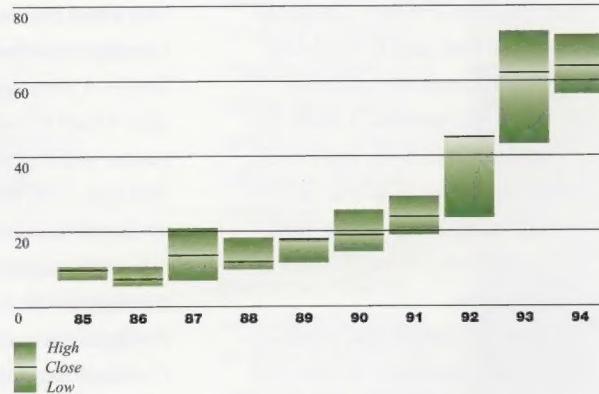
**Earnings (loss) per share**

(Dollars)



**Stock trading ranges by fiscal year**

(Dollars)



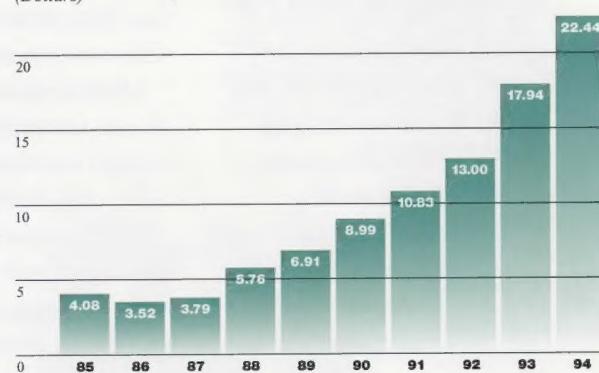
**Return on average stockholders' equity**

(Percent)



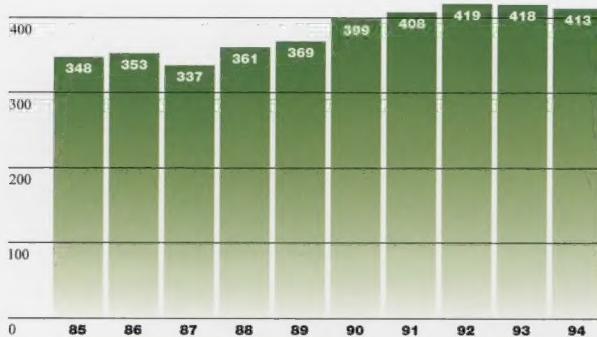
**Book value per share at year-end**

(Dollars)



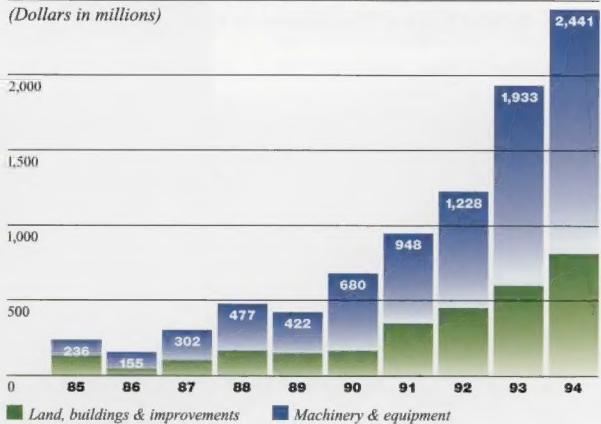
### Actual shares outstanding at year-end

(In millions)



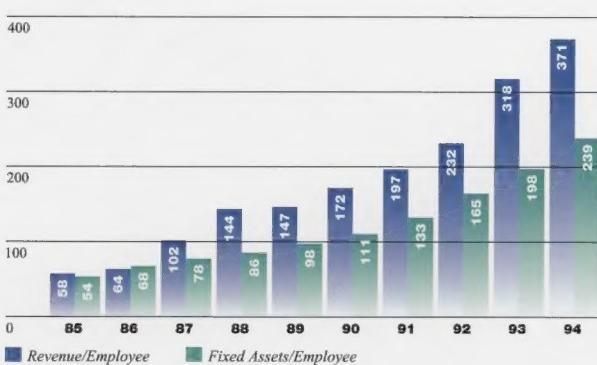
### Capital additions to property, plant and equipment

(Dollars in millions)



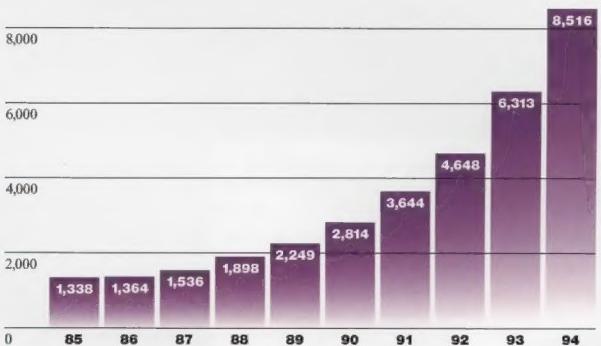
### Revenue and gross fixed assets per employee

(Dollars in thousands)



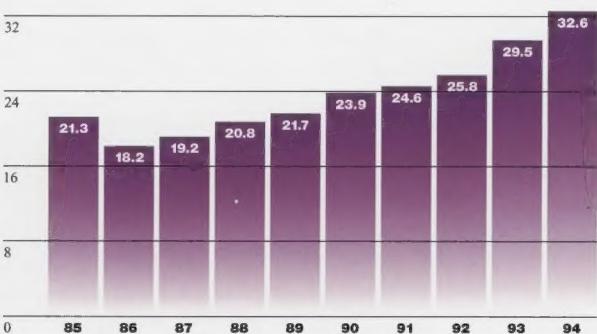
### Gross fixed assets at year-end

(Dollars in millions)



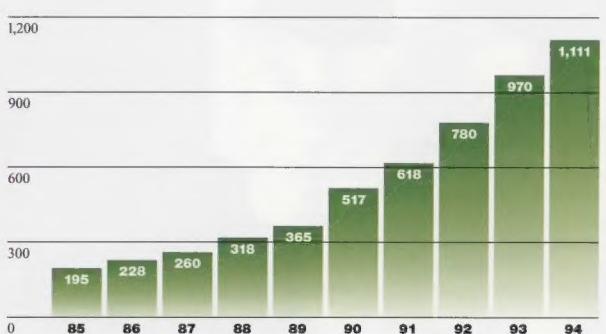
### Employees at year-end

(Thousands)



### Research and development

(Dollars in millions)



# Moving to the Pentium® processor

In 1994, the Pentium® processor became the mainstream microprocessor of choice because we increased production while dropping prices. Thanks to the wide range of affordable Pentium processor-based systems available today, this powerhouse processor is becoming the chip of choice for home and business  users around the world.



*Thinner than a dime and small as a postage stamp, the 75-MHz Pentium processor gives notebook computer makers more room for CD-ROM and other features. Intel's innovative tape carrier packaging is the reason the processor is so thin and lightweight. The chips are temporarily transported on a reel during package assembly.*



Today's exciting multimedia applications, such as video encyclopedias and challenging games, demand top processing power. Intel and major software vendors have cooperated to create labels that identify software programs which will run even better on a Pentium processor-based system.



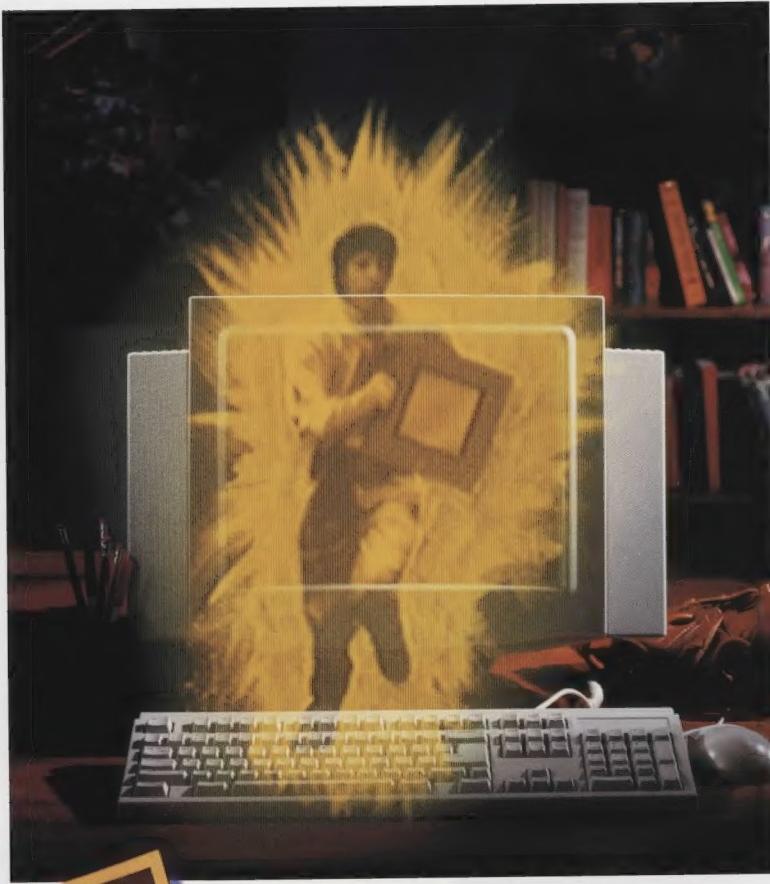


*Compatible with everyone's favorite PC software packages, the Pentium processor allows users the widest selection of applications. From word processing programs, to financial management packages, to the latest multi-media games and learning software, users get maximum performance.*



The Pentium processor delivers top software performance in a range of systems, from servers that connect several office PCs, such as Compaq's ProLiant 4000 network server, to home PCs such as the Packard Bell Force 160CDT multimedia PC, to lightweight mobile computers such as the Toshiba T4900CT/810 notebook PC. At year end, users could buy a fully loaded Pentium processor-based system with monitor, CD-ROM and software for under \$2,000.





*Home PC buyers have led the drive to increased PC capabilities, with their strong demand for multimedia PCs and software. Intel supplies the consumer markets with hardware and software products that make on-line services and multimedia software come alive. Shown here: "The Journey Inside" graphic downloaded from Hollywood Online.\**

**NETWORKING TECHNOLOGY**

Intel is a major networking products supplier, with a range of products that make PC networks easier to create, manage and use.

**FULL ETHERNET AND QMII: THE NEW STANDARD FOR LOCAL AREA NETWORKS**

Intel's major investment is paying off, greater demands are now occurring that will continue to increase and continue to increase. The new standard for local area networks is QMII. It is a standard that has been developed by Intel and its partners. The new standard for local area networks is QMII. It is a standard that has been developed by Intel and its partners. The new standard for local area networks is QMII. It is a standard that has been developed by Intel and its partners.



# PC communications become real

Both at home and in the office, PCs are becoming more powerful and more connected via networks. This means exciting new opportunities for products that let people communicate with each other through their PCs. In 1994, Intel introduced networking and communications technologies to help make such communications easier and more productive.



*Time is a critical factor in many medical diagnoses. To speed the process, Dr. Roger Stronell of Toronto's Radiology Telenetwork International Inc. uses Intel's ProShare™ Personal Conferencing products to transmit digital video files, such as MRI scans and this woman's skull X-ray results, in order to consult with medical experts at other sites via their PCs.*



*Business and government leaders track breaking news from their desks with CNN At Work,\* a new subscription service developed by Intel and CNN that delivers live programming to the PC via local area networks.*



# Making a name for Intel

In 1994, Intel continued to invest in programs that educate PC users about the benefits of genuine Intel technology. From year-end displays at CompUSA's New York City store (above) to marketing campaigns around the world, the message was consistent: everyone's favorite software runs best on Pentium® processor-based PCs.



*What a prize in that box!*

*In Canada, 20 families will win Pentium processor-powered multimedia PCs from Patriot Computer as part of a special sweepstakes promoted on Kellogg's cereal boxes.*



*Intel's U.S. fall ad campaign illustrated that the Pentium processor provides top performance for the most exciting software*



In July, entire cars of the Tokyo commuter trains were taken over by the Intel Inside® Pentium processor logo ad campaign. The ads explained that the Pentium processor provides top performance for a range of professionals, from symphony conductors to CEOs.



音楽も、  
ペンティアム™プロセッサ搭載マシン

コンピュータで演奏したり作曲組曲したり  
しかも、クリアなデジタルサウンドでこれからは  
音楽や映像を簡単に得れるパソコン主流  
インテルのペンティアム™プロセッサを搭載した  
パソコンが音楽の楽しさをひろげます

intel. intel inside pentium



In June, Intel president and CEO Andy Grove joined Vice President Al Gore and FCC chairman Reed Hunt in a roundtable discussion about the "information superhighway" on the popular "Larry King Live" TV show.



The Intel Inside logo reflects growing PC awareness in Beijing, where Intel distributed more than 60,000 bicycle reflectors to spread its message about the benefits of Intel microprocessors.

>>> JE SCHNELLER IHRE INFOS ANKOMMEN, DESTO SCHNELLER HABEN SIE IHRE ERSTE MILLION GEMACHT. <

SCHNELLER HABEN SIE IHRE ERSTE MILLION GEMACHT.

intel

Across Europe, the message was clear: business success starts with the Pentium processor.



# Building production capacity

New state-of-the-art semiconductor manufacturing and assembly facilities help Intel continue to provide high-performance processors at affordable prices. In 1994, Intel opened a new chip plant in Leixlip, Ireland and expanded production capacity at facilities in Oregon, New Mexico and Penang, Malaysia (top to bottom).

# Intel in the community

Kids in this third-grade Seattle class were among the thousands participating in the Intel-sponsored chess instruction programs and championships in schools around the country.



To teach kids how computers work, Intel launched "The Journey Inside," a national education program for grades 5 to 9.

The program consists of hands-on learning materials for teachers and students that come in a box shaped like a PC (shown left) and "The Journey Inside" IMAX feature film now showing at theaters around the world.

Intel provided \$1 million in Pentium processors to Arkenstone, a nonprofit organization that helps the visually impaired "read" using voice synthesizers. Here, second-grade teacher Mike Jones, who is blind, uses a voice synthesizer to read a book of children's poems.



Intel works hard to protect the environment and to be sensitive and responsive to any community concerns. At Intel's New Mexico site, Intel managers, community members and state environmental officials gathered in August to celebrate the opening of three new thermal oxidizers, installed to eliminate the solvent odors that some neighbors complained about. For more on Intel's environmental initiatives around the world, readers can request the Intel Environmental, Health and Safety annual report by calling 1-800-548-4725.

# Consolidated statements of income

*Three years ended December 31, 1994*

(In millions—except per share amounts)

	<b>1994</b>	<b>1993</b>	<b>1992</b>
<b>Net revenues</b>	<b>\$11,521</b>	<b>\$ 8,782</b>	<b>\$ 5,844</b>
Cost of sales	5,576	3,252	2,557
Research and development	1,111	970	780
Marketing, general and administrative	1,447	1,168	1,017
Operating costs and expenses	8,134	5,390	4,354
<b>Operating income</b>	<b>3,387</b>	<b>3,392</b>	<b>1,490</b>
Interest expense	(57)	(50)	(54)
Interest income and other, net	273	188	133
<b>Income before taxes</b>	<b>3,603</b>	<b>3,530</b>	<b>1,569</b>
Provision for taxes	1,315	1,235	502
<b>Net income</b>	<b>\$ 2,288</b>	<b>\$ 2,295</b>	<b>\$ 1,067</b>
<b>Earnings per common and common equivalent share</b>	<b>\$ 5.24</b>	<b>\$ 5.20</b>	<b>\$ 2.49</b>
<b>Weighted average common and common equivalent shares outstanding</b>	<b>437</b>	<b>441</b>	<b>429</b>

*See accompanying notes.*

# Consolidated balance sheets

*December 31, 1994 and December 25, 1993*

(In millions—except per share amounts)

	<b>1994</b>	<b>1993</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,180	\$ 1,659
Short-term investments	1,230	1,477
Accounts receivable, net of allowance for doubtful accounts of \$32 (\$22 in 1993)	1,978	1,448
Inventories	1,169	838
Deferred tax assets	552	310
Other current assets	58	70
<b>Total current assets</b>	<b>6,167</b>	<b>5,802</b>
Property, plant and equipment:		
Land and buildings	2,292	1,848
Machinery and equipment	5,374	4,148
Construction in progress	850	317
	8,516	6,313
Less accumulated depreciation	3,149	2,317
<b>Property, plant and equipment, net</b>	<b>5,367</b>	<b>3,996</b>
<b>Long-term investments</b>	<b>2,127</b>	<b>1,416</b>
<b>Other assets</b>	<b>155</b>	<b>130</b>
<b>Total assets</b>	<b>\$13,816</b>	<b>\$11,344</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Short-term debt	\$ 517	\$ 399
Long-term debt redeemable within one year	—	98
Accounts payable	575	427
Deferred income on shipments to distributors	269	200
Accrued compensation and benefits	588	544
Other accrued liabilities	646	374
Income taxes payable	429	391
<b>Total current liabilities</b>	<b>3,024</b>	<b>2,433</b>
<b>Long-term debt</b>	<b>392</b>	<b>426</b>
<b>Deferred tax liabilities</b>	<b>389</b>	<b>297</b>
<b>Put warrants</b>	<b>744</b>	<b>688</b>
<b>Commitments and contingencies</b>		
Stockholders' equity:		
Preferred Stock, \$.001 par value, 50 shares authorized; none issued	—	—
Common Stock, \$.001 par value, 1,400 shares authorized; 413 issued and outstanding in 1994 (418 in 1993) and capital in excess of par value	2,306	2,194
Retained earnings	6,961	5,306
<b>Total stockholders' equity</b>	<b>9,267</b>	<b>7,500</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$13,816</b>	<b>\$11,344</b>

See accompanying notes.

# Consolidated statements of cash flows

*Three years ended December 31, 1994*

(In millions)

	<b>1994</b>	<b>1993</b>	<b>1992</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>\$ 1,659</b>	<b>\$ 1,843</b>	<b>\$ 1,519</b>
Cash flows provided by (used for) operating activities:			
Net income	2,288	2,295	1,067
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation	1,028	717	518
Net loss on retirements of property, plant and equipment	42	36	57
Amortization of debt discount	19	17	16
Change in deferred tax assets and liabilities	(150)	12	13
Changes in assets and liabilities:			
(Increase) in accounts receivable	(530)	(379)	(371)
(Increase) in inventories	(331)	(303)	(113)
(Increase) in other assets	(13)	(68)	(61)
Increase in accounts payable	148	146	112
Tax benefit from employee stock plans	61	68	55
Increase in income taxes payable	38	32	207
Increase in accrued compensation and benefits	44	109	66
Increase in other liabilities	337	119	70
Total adjustments	693	506	569
<b>Net cash provided by operating activities</b>	<b>2,981</b>	<b>2,801</b>	<b>1,636</b>
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(2,441)	(1,933)	(1,228)
Purchases of long-term, available-for-sale investments	(975)	(1,165)	(293)
Sales of long-term, available-for-sale investments	10	5	13
Maturities and other changes in available-for-sale investments, net	503	(244)	28
<b>Net cash (used for) investing activities</b>	<b>(2,903)</b>	<b>(3,337)</b>	<b>(1,480)</b>
Cash flows provided by (used for) financing activities:			
(Decrease) increase in short-term debt, net	(63)	197	29
Additions to long-term debt	128	148	—
Retirement of long-term debt	(98)	—	(20)
Proceeds from sales of shares through employee stock plans and other	150	133	138
Proceeds from sale of Step-Up Warrants, net	—	287	—
Proceeds from sales of put warrants, net of repurchases	76	62	42
Repurchase and retirement of Common Stock	(658)	(391)	—
Payment of dividends to stockholders	(92)	(84)	(21)
<b>Net cash provided by (used for) financing activities</b>	<b>(557)</b>	<b>352</b>	<b>168</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(479)</b>	<b>(184)</b>	<b>324</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,180</b>	<b>\$ 1,659</b>	<b>\$ 1,843</b>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 76	\$ 39	\$ 32
Income taxes	\$ 1,366	\$ 1,123	\$ 227

*Certain amounts reported in previous years have been reclassified to conform to the 1994 presentation. See accompanying notes.*

# Consolidated statements of stockholders' equity

*Three years ended December 31, 1994*

(In millions)	Common Stock and capital in excess of par value			
	Number of shares	Amount	Retained earnings	Total
<b>Balance at December 28, 1991</b>	<b>408</b>	<b>\$ 1,641</b>	<b>\$ 2,777</b>	<b>\$ 4,418</b>
Proceeds from sales of shares through employee stock plans, tax benefit of \$55 and other	11	193	—	193
Proceeds from sales of put warrants, net of repurchases	—	42	—	42
Reclassification of put warrant obligation, net		(100)	(133)	(233)
Cash dividends declared (\$.10 per share)	—	—	(42)	(42)
Net income	—	—	1,067	1,067
<b>Balance at December 26, 1992</b>	<b>419</b>	<b>1,776</b>	<b>3,669</b>	<b>5,445</b>
Proceeds from sales of shares through employee stock plans, tax benefit of \$68 and other	6	201	—	201
Proceeds from sales of put warrants	—	62	—	62
Reclassification of put warrant obligation, net	—	(37)	(278)	(315)
Proceeds from sale of Step-Up Warrants	—	287	—	287
Repurchase and retirement of Common Stock	(7)	(95)	(296)	(391)
Cash dividends declared (\$.20 per share)	—	—	(84)	(84)
Net income	—	—	2,295	2,295
<b>Balance at December 25, 1993</b>	<b>418</b>	<b>2,194</b>	<b>5,306</b>	<b>7,500</b>
Proceeds from sales of shares through employee stock plans, tax benefit of \$61 and other	6	215	—	215
Proceeds from sales of put warrants	—	76	—	76
Reclassification of put warrant obligation, net	—	(15)	(106)	(121)
Repurchase and retirement of Common Stock	(11)	(164)	(429)	(593)
Redemption of Common Stock Purchase Rights	—	—	(2)	(2)
Cash dividends declared (\$.23 per share)	—	—	(96)	(96)
Net income	—	—	2,288	2,288
<b>Balance at December 31, 1994</b>	<b>413</b>	<b>\$ 2,306</b>	<b>\$ 6,961</b>	<b>\$ 9,267</b>

See accompanying notes.

# Notes

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## Accounting policies

**Fiscal year.** Intel Corporation ("Intel" or "the Company") has a fiscal year that ends the last Saturday in December. Fiscal 1994 was a 53-week year and ended on December 31, 1994. Fiscal 1993 and 1992, each 52-week years, ended on December 25 and 26, respectively. The next 53-week year will end on December 30, 2000.

**Basis of presentation.** The consolidated financial statements include the accounts of Intel and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Accounts denominated in foreign currencies have been remeasured into the functional currency in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," using the U.S. dollar as the functional currency.

**Cash and cash equivalents.** Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and original maturities of three months or less.

**Investments.** In 1994, the Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective as of the beginning of fiscal 1994. This adoption had no material effect on the Company's financial statements. All of the Company's short- and long-term investments are classified as available-for-sale as of the balance sheet date and are reported at fair value, with unrealized gains and losses recorded as a component of stockholders' equity.

**Fair values of financial instruments.** Fair values of cash and cash equivalents, short-term investments and short-term debt approximate cost due to the short period of time to maturity. Fair values of long-term investments, long-term debt, swaps, currency forward contracts and currency options are based on quoted market prices or pricing models using current market rates.

**Inventories.** Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual cost on a current average or first-in, first-out basis). Inventories at fiscal year-ends are as follows:

<i>(In millions)</i>	<i>1994</i>	<i>1993</i>
Materials and purchased parts	\$ 345	\$ 216
Work in process	528	321
Finished goods	296	301
<b>Total</b>	<b>\$1,169</b>	<b>\$ 838</b>

**Property, plant and equipment.** Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the following estimated useful lives: machinery and equipment, 2-4 years; land and buildings, 4-45 years.

**Deferred income on shipments to distributors.** Certain of the Company's sales are made to distributors under agreements allowing price protection and/or right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and

rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

**Interest.** Interest as well as gains and losses related to contractual agreements to hedge certain investment positions and debt (see "Derivative financial instruments") are recorded as net interest income or expense on a monthly basis. Interest expense capitalized as a component of construction costs was \$27 million, \$8 million and \$11 million for 1994, 1993 and 1992, respectively.

**Accounting for income taxes.** In 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," effective as of the beginning of fiscal 1993. This adoption had no material effect on Intel's financial statements. Prior years were accounted for under SFAS No. 96 and have not been restated.

**Earnings per common and common equivalent share.** Earnings per common and common equivalent share are computed using the weighted average number of outstanding common and dilutive common equivalent shares outstanding. Fully diluted earnings per share have not been presented as part of the consolidated statements of income because the differences are insignificant.

## Common Stock

**Common Stock Purchase Rights.** At the Company's Annual Meeting of Stockholders in May 1994, stockholders approved a proposal to redeem the Common Stock Purchase Rights (the "Rights") issued in 1989. A one-time payment of \$.005 per share was paid to stockholders in September 1994 to redeem the Rights.

**1998 Step-Up Warrants.** In 1993, the Company issued 20 million 1998 Step-Up Warrants to purchase 20 million shares of Common Stock. This transaction resulted in an increase of \$287 million in Common Stock and capital in excess of par value, representing net proceeds from the offering. The Warrants became exercisable in May 1993 at an effective price of \$71.50 per share of Common Stock, subject to annual increases to a maximum price of \$83.50 per share effective in March 1997. As of December 31, 1994, the Warrants are exercisable at a price of \$74.50 and expire on March 14, 1998 if not previously exercised. At prevailing market prices for Intel's Common Stock, there is no dilutive effect on earnings per share for the periods presented.

**Stock repurchase program.** In 1990, the Board of Directors authorized the repurchase of up to 40 million shares of Intel's Common Stock in open market or negotiated transactions. The Board increased this authorization to a maximum of 55 million shares in July 1994. During 1994, the Company repurchased and retired 10.9 million shares (7.3 million shares in 1993) at a cost of \$658 million (\$391 million in 1993). The 1994 amounts include 1.0 million shares repurchased for \$65 million in connection with the exercise of put warrants (see "Put warrants"). As of December 31, 1994, after reserving shares to cover outstanding put warrants, 17.9 million shares remained available under the repurchase authorization.

## Put warrants

In a series of private placements from 1991 through 1994, the Company sold put warrants that entitle the holder of each warrant to sell one share of Common Stock to the Company at a specified price. Activity during the past three years is summarized as follows:

(In millions)	Cumulative premium received (paid)	Put warrants outstanding	
		Number of warrants	Potential obligation
<b>December 28, 1991</b>	<b>\$ 14</b>	<b>7.0</b>	<b>\$140</b>
Sales	43	14.0	373
Repurchases	(1)	(5.2)	(104)
Expirations	—	(1.8)	(36)
<b>December 26, 1992</b>	<b>56</b>	<b>14.0</b>	<b>373</b>
Sales	62	10.8	561
Expirations	—	(10.0)	(246)
<b>December 25, 1993</b>	<b>118</b>	<b>14.8</b>	<b>688</b>
Sales	76	12.5	744
Exercises	—	(1.0)	(65)
Expirations	—	(13.8)	(623)
<b>December 31, 1994</b>	<b>\$194</b>	<b>12.5</b>	<b>\$744</b>

The amount related to Intel's potential repurchase obligation has been reclassified from stockholders' equity to put warrants. The 12.5 million put warrants outstanding at December 31, 1994 expire on various dates between February 1995 and December 1995 and have exercise prices ranging from \$55 to \$63 per share. There was no effect on earnings per share for the periods presented. During 1994, in connection with the exercise of 1.0 million put warrants, the Company repurchased and retired 1.0 million shares of Common Stock at a cost of \$65 million (see "Stock repurchase program").

## Borrowings

**Short-term debt.** Short-term debt and weighted average interest rates at fiscal year-ends are as follows:

(In millions)	1994		1993	
	Balance	Weighted average interest rate	Balance	Weighted average interest rate
Borrowed under lines of credit	\$ 68	3.2%	\$ 85	5.8%
Reverse repurchase agreements	99	8.0%	197	7.9%
Notes payable	5	4.7%	2	3.4%
Short-term portion of long-term debt	179	11.8%	—	—
Drafts payable	166	N/A	115	N/A
<b>Total</b>	<b>\$517</b>		<b>\$399</b>	

At December 31, 1994, the Company had established foreign and domestic lines of credit of approximately \$1,040 million. The Company generally renegotiates these lines annually. Compensating balance requirements are not material.

The Company also borrows under commercial paper programs. Maximum borrowings reached \$700 million during both 1994 and 1993. This debt is rated A1+ by Standard and Poor's and P1 by Moody's. Proceeds are used to fund short-term working capital needs.

**Long-term debt.** Long-term debt at fiscal year-ends is as follows:

(In millions)	1994	1993
Payable in U.S. dollars:		
AFICA Bonds due 2013 at 4%	\$110	\$110
Zero Coupon Notes due 1995 at 11.8%, net of unamortized discount of \$8 (\$27 in 1993)	179	160
8½% Notes due 1997	—	98
Other U.S. dollar debt	4	6
Payable in other currencies:		
Irish punt due 2008–2024 at 6%–12%	228	146
Greek drachma due 2001	46	—
Other foreign currency debt	4	4
(Less short-term or redeemable portion)	(179)	(98)
<b>Total</b>	<b>\$392</b>	<b>\$426</b>

The Company has guaranteed repayment of principal and interest on the AFICA Bonds which were issued by the Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority (AFICA). The bonds are adjustable and redeemable at the option of either the Company or the bondholder every five years through 2013 and are next adjustable and redeemable in 1998. The 8½% notes were called and repurchased by the Company during 1994 for \$98 million. The Irish punt borrowings were made in connection with the financing of a factory in Ireland, and Intel has invested the proceeds in Irish punt denominated instruments of similar maturity to hedge foreign currency and interest rate exposures. The Greek drachma borrowings were made under a tax incentive program in Ireland, and the proceeds and cash flows have been swapped to U.S. dollars.

In 1993, the Company filed a shelf registration statement with the SEC. When combined with previous registration statements, this filing gave Intel the authority to issue up to \$3.3 billion in the aggregate of Common Stock, Preferred Stock, depositary shares, debt securities and warrants to purchase the Company's Common Stock, Preferred Stock and debt securities, and, subject to certain limits, stock index warrants and foreign currency exchange units. In 1993, Intel completed an offering of Step-Up Warrants (see "1998 Step-Up Warrants") and may issue up to \$1.4 billion in additional securities under open registration statements.

As of December 31, 1994, aggregate debt maturities are as follows: 1995–\$187 million; 1996–none; 1997–none; 1998–\$110 million; and thereafter–\$282 million.

## Investments

The Company's policy is to protect the value of the investment portfolio by minimizing principal risk and earning returns based

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on current interest rates. All hedged equity and a majority of investments in long-term fixed rate debt securities are swapped to U.S. dollar LIBOR-based returns. The currency risks of investments denominated in foreign currencies are hedged with foreign currency borrowings, currency forward contracts or currency interest rate swaps (see "Derivative financial instruments"). Investments with maturities of greater than one year are classified as long term. There were no material proceeds, gross realized gains or gross realized losses from sales of securities during the year.

Investments with maturities of greater than six months consist primarily of A/A2 or better rated financial instruments and counterparties. Investments with maturities of up to six months consist primarily of A1/P1 or better rated financial instruments and counterparties. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries or the absence of A/A2 rated counterparties in certain countries result in some minor exceptions. Intel's practice is to obtain and secure collateral from counterparties against obligations whenever deemed appropriate. At December 31, 1994, investments were placed with approximately 100 different counterparties, and no individual security, financial institution or issuer exceeded 10% of total investments.

Investments at December 31, 1994 are comprised of the following:

<i>(In millions)</i>	<i>Cost</i>	<i>Gross unrealized gains</i>	<i>Gross unrealized losses</i>	<i>Estimated fair value</i>
Securities of foreign governments	\$ 518	\$ 2	\$ (7)	\$ 513
Floating rate notes	488	1	(1)	488
Corporate bonds	440	12	(14)	438
Loan participations	200	6	(2)	204
Collateralized mortgage obligations	170	—	(4)	166
Fixed rate notes	167	1	(2)	166
Commercial paper	134	—	—	134
Other debt securities	439	—	(5)	434
Total debt securities	2,556	22	(35)	2,543
Hedged equity	431	—	(58)	373
Preferred stock and other equity	368	20	(16)	372
Total equity securities	799	20	(74)	745
Swaps hedging debt securities	—	22	(14)	8
Swaps hedging equity securities	—	60	—	60
Currency forward contracts hedging debt securities	—	1	—	1
<b>Total available-for-sale securities</b>	<b>\$3,355</b>	<b>\$ 125</b>	<b>\$ (123)</b>	<b>\$3,357</b>

At December 31, 1994, the Company also holds \$930 million of available-for-sale investments in other debt securities that are classified as cash and equivalents on the balance sheet.

The amortized cost and estimated fair value of investments in debt securities at December 31, 1994, by contractual maturity, are as follows:

<i>(In millions)</i>	<i>Cost</i>	<i>Estimated fair value</i>
Due in 1 year or less	\$1,144	\$1,144
Due in 1-2 years	515	512
Due in 2-5 years	642	635
Due after 5 years	255	252
<b>Total investments in debt securities</b>	<b>\$2,556</b>	<b>\$2,543</b>

## Derivative financial instruments

As part of its ongoing asset and liability management activities, the Company enters into derivative financial instruments to reduce financial market risks. These instruments are used to hedge foreign currency, equity market and interest rate exposures of underlying assets, liabilities and other obligations. These instruments involve elements of market risk which offset the market risk of the underlying assets and liabilities they hedge. The Company does not enter into derivative financial instruments for trading purposes.

Notional amounts for derivatives at fiscal year-ends are as follows:

<i>(In millions)</i>	<i>1994</i>	<i>1993</i>
Swaps hedging investments in debt securities	\$1,080	\$ 809
Swaps hedging investments in equity securities	\$ 567	\$ 260
Swaps hedging debt	\$ 155	\$ 110
Currency forward contracts	\$ 784	\$ 620
Currency options	\$ 10	\$ 28

While the contract or notional amounts provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of the Company. The Company controls credit risk through credit approvals, limits and monitoring procedures. Credit rating criteria for off-balance-sheet transactions are similar to those for investments.

**Swap agreements.** The Company enters into swap agreements to exchange the foreign currency, equity market, and fixed interest rate exposures of its investment and debt portfolios for a floating interest rate. The floating rates on swaps are based primarily on U.S. dollar LIBOR and reset on a monthly, quarterly or semiannual basis.

Weighted average pay and receive rates, average maturities, and range of maturities on swaps at December 31, 1994 are as follows:

	<b>Weighted average pay rate</b>	<b>Weighted average receive rate</b>	<b>Weighted average maturity</b>	<b>Range of maturities</b>
Swaps hedging investments in U.S. dollar debt securities	6.7%	6.0%	1.2 years	0-4 years
Swaps hedging investments in foreign currency debt securities	10.8%	8.2%	1.8 years	0-3 years
Swaps hedging investments in equity securities	N/A	5.5%	2.1 years	0-3 years
Swaps hedging debt	6.1%	5.2%	4.9 years	4-7 years

Pay rates on swaps hedging investments in debt securities generally match the yields on the underlying investments they hedge. Payments on swaps hedging investments in equity securities generally match the equity returns on the underlying investments they hedge. Receive rates on swaps hedging debt generally match the expense on the underlying debt they hedge. Maturity dates of swaps generally match those of the underlying investment or debt they hedge. There is approximately a one-to-one matching of investments and debt to swaps. Swap agreements generally remain in effect until expiration. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

**Other foreign currency instruments.** Intel transacts business in various foreign currencies, primarily Japanese yen and certain European currencies. The Company enters into currency forward and option contracts to hedge foreign exchange risk. The Company also periodically enters into currency option contracts to hedge certain anticipated revenue and purchases for which it does not have a firm commitment. The maturities on most of these foreign currency instruments are less than 12 months. Any gains or losses on these instruments are recognized in accordance with SFAS Nos. 52 and 80. Deferred gains or losses attributable to foreign currency instruments are not material.

## Fair values of financial instruments

The estimated fair values of financial instruments at fiscal year-ends are as follows:

<i>(In millions)</i>	<b>1994</b>		<b>1993</b>	
	<b>Carrying amount</b>	<b>Estimated fair value</b>	<b>Carrying amount</b>	<b>Estimated fair value</b>
Cash and cash equivalents	\$1,180	\$1,180	\$1,659	\$1,659
Short-term investments	1,230	1,230	1,477	1,477
Long-term investments	2,058	2,058	1,416	1,412
Swaps hedging investments in debt securities	8	8	—	—
Swaps hedging investments in equity securities	60	60	—	—
Short-term debt	(517)	(517)	(399)	(399)
Long-term debt	(392)	(384)	(426)	(436)
Swaps hedging debt	—	(12)	—	—
Currency forward contracts	1	5	—	9
Currency options	—	—	—	—
<b>Total</b>	<b>\$3,628</b>	<b>\$3,628</b>	<b>\$3,727</b>	<b>\$3,722</b>

## Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments and trade receivables. Intel places its investments with high-credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty. A majority of the Company's trade receivables are derived from sales to manufacturers of micro-computer systems, with the remainder spread across various other industries. The Company keeps pace with the evolving computer industry and has adopted credit policies and standards to accommodate the industry's growth and inherent risk. Management believes that any risk of accounting loss is significantly reduced due to the diversity of its products, end customers and geographic sales areas. Intel performs ongoing credit evaluations of its customers' financial condition and requires collateral, such as letters of credit and bank guarantees, whenever deemed necessary.

## Interest income and other

<i>(In millions)</i>	<b>1994</b>	<b>1993</b>	<b>1992</b>
Interest income	\$235	\$155	\$141
Foreign currency gains (losses)	15	—	(1)
Other income (loss)	23	33	(7)
<b>Total</b>	<b>\$273</b>	<b>\$188</b>	<b>\$133</b>

Other income for 1994 included non-recurring gains from the settlement of various insurance claims. Other income for 1993 included non-recurring gains from the sale of certain foreign benefits related to the Company's Irish expansion and dividend

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income earned on equity investments. Other loss for 1992 included a provision to cover the Company's liability for damages payable under an arbitration decision, partially offset by income from incentive credits.

### Provision for taxes

Income before taxes and the provision for taxes consisted of the following:

<i>(In millions)</i>	<b>1994</b>	<b>1993</b>	<b>1992</b>
<b>Income before taxes:</b>			
U.S.	\$2,460	\$2,587	\$ 924
Foreign	1,143	943	645
<b>Total income before taxes:</b>	<b>\$3,603</b>	<b>\$3,530</b>	<b>\$1,569</b>
<b>Provision for taxes:</b>			
Federal:			
Current	\$1,169	\$ 946	\$ 339
Deferred	(178)	35	6
	991	981	345
State:			
Current	162	150	71
Foreign:			
Current	134	127	79
Deferred	28	(23)	7
	162	104	86
<b>Total provision for taxes</b>	<b>\$1,315</b>	<b>\$1,235</b>	<b>\$ 502</b>
<b>Effective tax rate</b>	<b>36.5%</b>	<b>35.0%</b>	<b>32.0%</b>

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for 1994 by \$61 million and for 1993 by \$68 million. Such benefits are credited to Common Stock and capital in excess of par value when realized.

The provision for taxes reconciles to the amount computed by applying the statutory U.S. federal rate of 35% for 1994 (35% for 1993 and 34% for 1992) to income before taxes as follows:

<i>(In millions)</i>	<b>1994</b>	<b>1993</b>	<b>1992</b>
Computed expected tax	\$1,261	\$1,235	\$ 533
State taxes, net of federal benefits	105	98	47
Research and experimental credit	(11)	(23)	(7)
Foreign sales corporation benefit	(50)	(46)	(36)
Provision for combined foreign and U.S. taxes on certain foreign income at rates (less) greater than U.S. rate	(37)	1	(17)
Other	47	(30)	(18)
<b>Provision for taxes</b>	<b>\$1,315</b>	<b>\$1,235</b>	<b>\$ 502</b>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at fiscal year-ends are as follows:

<i>(In millions)</i>	<b>1994</b>	<b>1993</b>
<b>Deferred tax assets:</b>		
Accrued compensation and other benefits	\$ 49	\$ 44
Accrued advertising	17	18
Deferred income	127	76
Inventory valuation and related reserves	255	77
Interest and taxes	54	72
Other, net	50	23
	<b>552</b>	<b>310</b>
<b>Deferred tax liabilities:</b>		
Depreciation	(338)	(245)
Unremitted earnings of certain subsidiaries	(51)	(52)
	<b>(389)</b>	<b>(297)</b>
<b>Net deferred tax asset</b>	<b>\$163</b>	<b>\$ 13</b>

During 1992, in accordance with SFAS No. 96, deferred income taxes were provided for significant temporary differences. The principal items making up the 1992 deferred tax expense included \$42 million for depreciation reduced by \$18 million for inventory valuation and other reserves, and \$12 million of other items.

The Company's U.S. income tax returns for the years 1978 through 1987 have been examined by the Internal Revenue Service (IRS). In 1989, the Company received a notice of proposed deficiencies from the IRS totaling \$36 million, exclusive of penalties and interest, for the years 1978 through 1982. These proposed deficiencies relate primarily to operations in Puerto Rico. In 1989, the Company filed a petition in the U.S. Tax Court contesting these proposed deficiencies and subsequently reached settlement of certain issues with the IRS. In 1993, the U.S. Tax Court ruled in favor of the Company on the export source issue and for the IRS on another, smaller issue. The IRS has appealed the decision to the United States Court of Appeals for the Ninth Circuit, and the Company has filed a cross-appeal of the decision.

The Company has also received an examination report for the years 1983 through 1987. Intel has lodged a protest, which relates solely to the export source issue referenced above, to the IRS Appeals Office, but no decisions have been reached.

The Company's U.S. income tax returns for the years 1988 through 1990 are presently under examination by the IRS. Final proposed adjustments have not yet been received for these years. Management believes that adequate amounts of tax and related interest and penalties, if any, have been provided for any adjustments that may result from unsettled portions of the 1978-1987 cases or the years now under examination.

### Employee benefit plans

**Stock option plans.** Intel has stock option plans (hereafter referred to as the EOP Plans) under which officers, key employees and non-employee directors may be granted options to purchase shares of the Company's authorized but unissued Common Stock. The Company also has an Executive Long-Term Stock Option Plan (ELTSOP) under which certain key executive officers may be

granted options to purchase shares of the Company's authorized but unissued Common Stock. Under all plans, the option purchase price is not less than fair market value at the date of grant.

Options currently expire no later than ten years from the grant date. Proceeds received by the Company from exercises are credited to Common Stock and capital in excess of par value. Additional information on EOP Plan activity is as follows:

(In millions)	<i>Shares available for options</i>	<i>Outstanding options</i>	
		<i>Number of shares</i>	<i>Aggregate price</i>
<b>December 28, 1991</b>	<b>38.1</b>	<b>39.0</b>	<b>\$ 585</b>
Grants	(7.3)	7.3	195
Exercises	—	(7.6)	(78)
Cancellations	1.9	(1.9)	(33)
<b>December 26, 1992</b>	<b>32.7</b>	<b>36.8</b>	<b>669</b>
Grants	(7.6)	7.6	357
Exercises	—	(4.5)	(56)
Cancellations	0.9	(0.9)	(24)
<b>December 25, 1993</b>	<b>26.0</b>	<b>39.0</b>	<b>946</b>
Grants	(6.0)	6.0	397
Exercises	—	(4.1)	(54)
Cancellations	0.8	(0.8)	(33)
<b>December 31, 1994</b>	<b>20.8</b>	<b>40.1</b>	<b>\$1,256</b>
Options exercisable at:			
December 26, 1992		9.8	\$ 109
December 25, 1993		10.2	\$ 135
December 31, 1994		13.1	\$ 198

The range of exercise prices for options outstanding at December 31, 1994 was \$6.08 to \$72.25. These options expire if not exercised at specific dates ranging from January 1995 to December 2004. Prices for options exercised during the three-year period ended December 31, 1994 ranged from \$3.52 to \$58.78.

Activity for the ELTSOP Plan is summarized below:

(In millions)	<i>Shares available for options</i>	<i>Outstanding options</i>	
		<i>Number of shares</i>	<i>Aggregate price</i>
<b>December 28, 1991</b>	<b>6.4</b>	<b>3.5</b>	<b>\$51</b>
Exercises	—	(0.3)	(4)
Cancellations	0.2	(0.2)	(3)
<b>December 26, 1992</b>	<b>6.6</b>	<b>3.0</b>	<b>44</b>
Grants	(0.2)	0.2	11
Exercises	—	(0.4)	(6)
<b>December 25, 1993</b>	<b>6.4</b>	<b>2.8</b>	<b>49</b>
Exercises	—	(0.3)	(4)
<b>December 31, 1994</b>	<b>6.4</b>	<b>2.5</b>	<b>\$45</b>
Options exercisable at:			
December 26, 1992		0.5	\$ 7
December 25, 1993		0.7	\$11
December 31, 1994		1.3	\$19

The exercise prices of options outstanding at December 31, 1994 ranged from \$14.63 to \$54.63. These options expire if not exercised at specific dates ranging from April 1999 to July 2003. The price range for options exercised during the three-year period ended December 31, 1994 was \$14.63 to \$14.69.

**Stock participation plan.** Under this plan, qualified employees may purchase shares of Intel's Common Stock at 85% of fair market value at specific, predetermined dates. Of the 59.0 million shares authorized to be issued under the plan, 15.4 million shares are available for issuance at December 31, 1994. Employees purchased 2.0 million shares in 1994 (2.2 million and 2.6 million in 1993 and 1992, respectively) for \$94 million (\$71 million and \$57 million in 1993 and 1992, respectively).

**Retirement plans.** The Company provides profit-sharing retirement plans (the "Profit-Sharing Plans") for the benefit of qualified employees in the U.S. and Puerto Rico. The plans are designed to provide employees with an accumulation of funds at retirement and provide for annual discretionary contributions to trust funds.

The Company also provides a non-qualified profit-sharing retirement plan (the "Non-Qualified Plan") for the benefit of qualified employees in the U.S. This plan is designed to permit certain discretionary employer contributions in excess of the tax limits applicable to the profit-sharing retirement plans discussed above and to permit certain employee deferrals in excess of certain tax limits. This plan is intended to be an unfunded plan.

The Company accrued \$152 million for the Profit-Sharing Plans and the Non-Qualified Plan in 1994 (\$103 million in 1993 and \$93 million in 1992). Of the \$152 million accrued in 1994, the Company expects to fund approximately \$126 million for the 1994 contribution to the Profit-Sharing Plans and to allocate approximately \$5 million for the Non-Qualified Plan. The remainder, plus approximately \$120 million carried forward from prior years, is expected to be contributed to these plans when allowable under IRS regulations and plan rules.

Contributions made by the Company vest based on the employee's years of service. Vesting begins after three years of service in 20% annual increments until the employee is 100% vested after seven years.

The Company provides qualified defined benefit pension plans for the benefit of qualified employees in the U.S. and Puerto Rico. Each plan provides for minimum pension benefits, which are determined by a participant's years of service, final average compensation (taking into account the participant's social security wage base), and the value of the Company's contributions, plus earnings, in the Profit-Sharing Plan. If the balance in the participant's Profit-Sharing Plan exceeds the pension guarantee, the participant will receive benefits from the Profit-Sharing Plan only. Intel's funding policy is consistent with the funding requirements of federal laws and regulations.

# Notes

*to consolidated financial statements*

Pension expense for 1994, 1993 and 1992 for the U.S. and Puerto Rico plans was less than \$1 million per year, and no component of expense exceeded \$1 million.

The funded status of these plans as of December 31, 1994 and December 25, 1993 is as follows:

<i>(In millions)</i>	<i>1994</i>	<i>1993</i>
<i>Vested benefit obligation</i>	<b>\$ (3)</b>	<b>\$ (2)</b>
<i>Accumulated benefit obligation</i>	<b>\$ (3)</b>	<b>\$ (2)</b>
Projected benefit obligation	\$ (5)	\$ (8)
Fair market value of plan assets	6	6
Projected benefit obligation less than (in excess of) plan assets	1	(2)
Unrecognized net (gain)	(12)	(10)
Unrecognized prior service cost	4	5
<i>Accrued pension costs</i>	<b>\$ (7)</b>	<b>\$ (7)</b>

At fiscal year-ends, the weighted average discount rates and long-term rates for compensation increases used for estimating the benefit obligations and the expected return on plan assets are as follows:

	<i>1994</i>	<i>1993</i>	<i>1992</i>
Discount rate	8.5%	7.0%	8.5%
Rate of increase in compensation levels	5.5%	5.0%	5.5%
Expected long-term return on assets	8.5%	8.5%	8.5%

Plan assets of the U.S. and Puerto Rico plans consist primarily of listed stocks and bonds, repurchase agreements, money market securities, U.S. government securities and stock index derivatives.

The Company provides defined-benefit pension plans in certain foreign countries where required by statute. The Company's funding policy for foreign defined-benefit plans is consistent with the local requirements in each country. Pension expense for 1994, 1993 and 1992 for the foreign plans included the following:

<i>(In millions)</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>
Service cost-benefits earned during the year	\$5	\$5	\$5
Interest cost of projected benefit obligation	5	6	5
Actual investment (return) on plan assets	(8)	(7)	—
Net amortization and deferral	3	2	(5)
<i>Net pension expense</i>	<b>\$5</b>	<b>\$6</b>	<b>\$5</b>

The funded status of the foreign defined-benefit plans as of December 31, 1994 and December 25, 1993 is summarized below:

<i>1994</i> <i>(In millions)</i>	<i>Assets exceed accumulated benefits</i>	<i>Accumulated benefits exceed assets</i>
<i>Vested benefit obligation</i>	<b>\$ (32)</b>	<b>\$ (4)</b>
<i>Accumulated benefit obligation</i>	<b>\$ (34)</b>	<b>\$ (9)</b>
Projected benefit obligation	\$ (49)	\$(16)
Fair market value of plan assets	51	3
Projected benefit obligation less than (in excess of) plan assets	2	(13)
Unrecognized net loss	2	2
Unrecognized net transition obligation	—	1
<i>Prepaid (accrued) pension costs</i>	<b>\$ 4</b>	<b>\$ (10)</b>

<i>1993</i> <i>(In millions)</i>	<i>Assets exceed accumulated benefits</i>	<i>Accumulated benefits exceed assets</i>
<i>Vested benefit obligation</i>	<b>\$ (27)</b>	<b>\$ (3)</b>
<i>Accumulated benefit obligation</i>	<b>\$ (28)</b>	<b>\$ (7)</b>
Projected benefit obligation	\$ (39)	\$(12)
Fair market value of plan assets	41	2
Projected benefit obligation less than (in excess of) plan assets	2	(10)
Unrecognized net transition obligation	—	1
<i>Prepaid (accrued) pension costs</i>	<b>\$ 2</b>	<b>\$ (9)</b>

At fiscal year-ends, the weighted average discount rates and long-term rates for compensation increases used for estimating the benefit obligations and the expected return on plan assets are as follows:

	<i>1994</i>	<i>1993</i>	<i>1992</i>
Discount rate	5.5%–14%	5.5%–14%	5.5%–24%
Rate of increase in compensation levels	4.5%–11%	4.5%–11%	4.5%–18%
Expected long-term return on assets	5.5%–14%	5.5%–14%	5.5%–24%

Plan assets of the foreign plans consist primarily of listed stocks, bonds and cash surrender value life insurance policies.

**Other postemployment benefits.** As of December 31, 1994, Intel does not offer the types of benefits covered by SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and thus is not affected by this statement. SFAS No. 112, "Employers' Accounting for Postemployment Benefits," does not materially impact the Company.

## Commitments

The Company leases a portion of its capital equipment and certain of its facilities under leases which expire at various dates through 2003. Rental expense was \$38 million in 1994, \$35 million in 1993 and \$39 million in 1992. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1995-\$16 million; 1996-\$14 million; 1997-\$11 million; 1998-\$8 million; 1999-\$5 million; 2000 and beyond-\$8 million. Commitments for construction or purchase of property, plant and equipment approximate \$1,406 million at December 31, 1994. In connection with certain contract manufacturing arrangements, Intel has minimum purchase commitments of approximately \$150 million at December 31, 1994 for flash memories intended for sale.

## Contingencies

In 1991, the Company was sued by Advanced Micro Devices, Inc. (AMD) in the U.S. District Court for the Northern District of California, alleging violations of U.S. antitrust laws and claiming \$2 billion damages and requesting treble damages under the antitrust laws. On January 11, 1995, in connection with the settlement of various legal matters between the two companies, the parties agreed to dismiss all claims, counterclaims and defenses raised in this action.

During late 1994, numerous civil lawsuits were filed in the U.S. District Court for the Northern District of California alleging that Intel failed to disclose material information relating to the divide problem in the floating point unit in the Pentium® processor, thereby committing violations of various securities laws. In addition, certain officers and directors who sold stock were alleged to have committed acts of insider trading. All cases were dismissed on February 9, 1995.

During the period from November 29, 1994 through December 19, 1994, numerous civil consumer lawsuits were filed in state courts in various states against the Company. Although the complaints differ, these actions generally allege that Intel breached express and implied warranties, engaged in deceptive advertising and otherwise committed consumer fraud by shipping Pentium processors that contained a divide problem in the floating point unit, and by failing to disclose it. The suits seek compensatory and punitive damages of unspecified amounts. In two of the pending cases, plaintiffs have filed a motion for a preliminary injunction, seeking to modify and more widely publicize Intel's replacement policy and other related relief. The Company believes the suits to be without merit and will defend the cases vigorously. Although the ultimate outcome of these suits cannot be determined at this time, management, including internal counsel, does not believe

that the outcome of this litigation will have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company has been named to the California and U.S. federal Superfund lists for three of its sites and has completed, along with two other companies, a Remedial Investigation/Feasibility Study with the U.S. Environmental Protection Agency (EPA) to evaluate the groundwater in a certain area related to one of its sites. The EPA has issued a Record of Decision with respect to a groundwater cleanup plan at that site, including expected costs to complete. Under the California and U.S. federal Superfund statutes, liability for cleanup of this site is joint and several. The Company, however, has reached agreement in principle with those same two companies that significantly limits the Company's liabilities under the proposed cleanup plan. In addition, the Company has done extensive cleanup and studies of its sites. In the opinion of management, including internal counsel, the potential losses to the Company in excess of amounts already accrued arising out of these matters will not have a material adverse effect on the Company's financial position, even if joint and several liability were to be assessed.

The Company is party to various other legal proceedings. In the opinion of management, including internal counsel, these proceedings will not have a material adverse effect on the financial position or overall trends in results of operations of the Company.

## Industry segment reporting

Intel operates in one dominant industry segment: the design, development, manufacture and sale of microcomputer components and related products at various levels of integration. No customer exceeded 10% of revenues in 1994. One significant customer accounted for 10% of revenues in 1993; none did so in 1992. Major operations outside the United States include manufacturing facilities in Ireland, Israel, Malaysia, and the Philippines, and sales subsidiaries in Japan, Asia-Pacific, and throughout Europe and other parts of the world. Summary balance sheet information for operations outside the United States at fiscal year-ends is as follows:

(In millions)	1994	1993
Total assets	\$2,940	\$2,192
Total liabilities	\$ 962	\$ 637
Net property, plant and equipment	\$1,238	\$1,042

# Notes

*to consolidated financial statements*

Geographic information for the three years ended December 31, 1994 is presented in the following table. Transfers between geographic areas are accounted for at amounts that are generally above cost and consistent with the rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Operating income by geographic segment does not

include an allocation of general corporate expenses. Identifiable assets are those that can be directly associated with a particular geographic area. Corporate assets include cash and cash equivalents, short-term investments, deferred tax assets, other current assets, long-term investments and certain other assets.

*(In millions)*  
**1994**

	<i>Sales to unaffiliated customers</i>	<i>Transfers between geo- graphic areas</i>	<i>Net revenues</i>	<i>Operating income</i>	<i>Identifiable assets</i>
United States	\$ 5,826	\$ 4,561	\$10,387	\$ 2,742	\$ 7,771
Europe	3,158	380	3,538	418	1,733
Japan	944	61	1,005	125	343
Asia-Pacific	1,593	1,021	2,614	154	540
Other	—	639	639	378	324
Eliminations	—	(6,662)	(6,662)	179	(1,878)
Corporate	—	—	—	(609)	4,983
<b>Consolidated</b>	<b>\$11,521</b>	<b>\$ —</b>	<b>\$11,521</b>	<b>\$ 3,387</b>	<b>\$13,816</b>

**1993**

United States	\$ 4,416	\$ 3,406	\$ 7,822	\$ 2,896	\$ 5,379
Europe	2,476	51	2,527	309	1,214
Japan	678	119	797	108	351
Asia-Pacific	1,212	745	1,957	132	420
Other	—	566	566	348	207
Eliminations	—	(4,887)	(4,887)	85	(1,123)
Corporate	—	—	—	(486)	4,896
<b>Consolidated</b>	<b>\$ 8,782</b>	<b>\$ —</b>	<b>\$ 8,782</b>	<b>\$ 3,392</b>	<b>\$11,344</b>

**1992**

United States	\$ 3,018	\$ 2,339	\$ 5,357	\$ 1,313	\$ 3,761
Europe	1,435	47	1,482	160	937
Japan	452	71	523	54	282
Asia-Pacific	939	595	1,534	127	321
Other	—	444	444	269	175
Eliminations	—	(3,496)	(3,496)	28	(751)
Corporate	—	—	—	(461)	3,364
<b>Consolidated</b>	<b>\$ 5,844</b>	<b>\$ —</b>	<b>\$ 5,844</b>	<b>\$ 1,490</b>	<b>\$ 8,089</b>

#### *Supplemental information (unaudited)*

Quarterly information for the two years ended December 31, 1994 is presented on page 31.

# Report of Ernst & Young LLP

*Independent auditors*

## The Board of Directors and Stockholders, Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 31, 1994 and December 25, 1993, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and signifi-

cant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 31, 1994 and December 25, 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

*Ernst & Young LLP*

San Jose, California

January 16, 1995

# Financial summary

Ten years ended December 31, 1994

(In millions)	<i>Net investment in property, plant &amp; equip.</i>	<i>Total assets</i>	<i>Long-term debt &amp; put warrants</i>	<i>Stockholders' equity</i>	<i>Additions to property, plant &amp; equipment</i>
1994	\$ 5,367	\$13,816	\$ 1,136	\$ 9,267	\$ 2,441
1993	\$ 3,996	\$11,344	\$ 1,114	\$ 7,500	\$ 1,933
1992	\$ 2,816	\$ 8,089	\$ 622	\$ 5,445	\$ 1,228
1991	\$ 2,163	\$ 6,292	\$ 503	\$ 4,418	\$ 948
1990	\$ 1,658	\$ 5,376	\$ 345	\$ 3,592	\$ 680
1989	\$ 1,284	\$ 3,994	\$ 412	\$ 2,549	\$ 422
1988	\$ 1,122	\$ 3,550	\$ 479	\$ 2,080	\$ 477
1987	\$ 891	\$ 2,499	\$ 298	\$ 1,276	\$ 302
1986	\$ 779	\$ 1,977	\$ 287	\$ 1,245	\$ 155
1985	\$ 848	\$ 2,153	\$ 271	\$ 1,421	\$ 236

(In millions—except per share amounts)	<i>Net revenues</i>	<i>Cost of sales</i>	<i>Research &amp; development</i>	<i>Operating income (loss)</i>	<i>Net income (loss)</i>	<i>Earnings (loss) per share</i>	<i>Dividends declared per share</i>
1994	\$11,521	\$ 5,576	\$ 1,111	\$ 3,387	\$ 2,288	\$ 5.24	\$ 0.23
1993	\$ 8,782	\$ 3,252	\$ 970	\$ 3,392	\$ 2,295	\$ 5.20	\$ 0.20
1992	\$ 5,844	\$ 2,557	\$ 780	\$ 1,490	\$ 1,067	\$ 2.49	\$ 0.10
1991	\$ 4,779	\$ 2,316	\$ 618	\$ 1,080	\$ 819	\$ 1.96	—
1990	\$ 3,921	\$ 1,930	\$ 517	\$ 858	\$ 650	\$ 1.60	—
1989	\$ 3,127	\$ 1,721	\$ 365	\$ 557	\$ 391	\$ 1.04	—
1988	\$ 2,875	\$ 1,506	\$ 318	\$ 594	\$ 453	\$ 1.26	—
1987	\$ 1,907	\$ 1,044	\$ 260	\$ 246	\$ 248	\$ 0.69	—
1986	\$ 1,265	\$ 861	\$ 228	\$ (195)	\$ (203)	\$ (0.58)	—
1985	\$ 1,365	\$ 943	\$ 195	\$ (60)	\$ 2	\$ 0.00	—

# Management's discussion and analysis

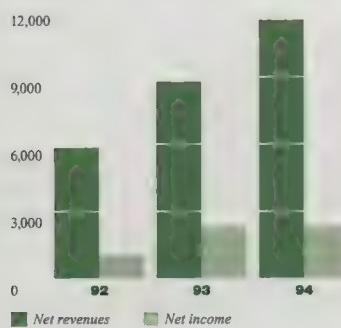
*of financial condition and results of operations*

## Results of operations

Intel's net revenues reached a new high in 1994, rising by 31% from 1993 to 1994 and by 50% from 1992 to 1993, driven by a robust PC market and an ongoing shift in demand toward more powerful microprocessors. Higher volumes of increasingly faster, more advanced microprocessors, partially offset by lower average selling prices, were responsible for most of the growth in revenues from 1992 through 1994. The Pentium® processor, introduced in 1993, ramped into high volume in 1994 and was the major factor

### Revenues and income

(Dollars in millions)



in Intel's overall revenue growth from 1993 to 1994. Increased sales of newer members of the Intel486™ microprocessor family, such as the IntelDX2™ processor, drove the revenue growth from 1992 to 1993. Higher volumes of motherboard and chipset products also contributed significantly to the increase in revenues from 1993 to 1994 and

helped enable the successful Pentium processor ramp. Flash memory revenues increased throughout the 1992–1994 period, although not at rates previously expected. Sales of system platforms, networking and communications products, and embedded control products also grew, especially from 1992 to 1993. Growing demand and production for the Intel486 microprocessor family resulted in a sharp decline in sales of the mature Intel386™ CPU family from 1992 to 1993.

Gross margin for the fourth quarter of 1994 included the impact of a \$475 million charge, primarily to cost of sales, to cover replacement costs, replacement material and inventory writedown related to a divide problem in the floating point unit of the Pentium processor. Cost of sales increased by 71% from 1993 to 1994 and by 27% from 1992 to 1993. Cost of sales grew at a faster rate than revenues during 1993 and 1994, although gross margin dollar contribution generally continued to rise. In addition to the one-time charge for the Pentium processor floating point problem, growth in cost of sales was driven by higher unit volumes, shifts in product mix and costs associated with initiating production at new factories. As a result of these factors and the revenue trends described above, gross margin percentage declined to 52% in 1994 (37% in the fourth quarter of 1994), compared to 63% in 1993.

Sales of the Intel486 microprocessor family comprised a majority of the Company's revenues and a substantial majority of its gross margin during 1992, 1993 and 1994. While Intel reached its goal of shipping 6–7 million Pentium processors later than anticipated, a significant and growing portion of the Company's revenues and margins were derived from sales of the Pentium processor

family in 1994. The Pentium processor family comprised 23% of Intel's microprocessor unit shipments to the desktop computer market segment in the fourth quarter of 1994. If current trends continue, quarterly volumes of the Pentium processor family could surpass those of the Intel486 microprocessor family during 1995.

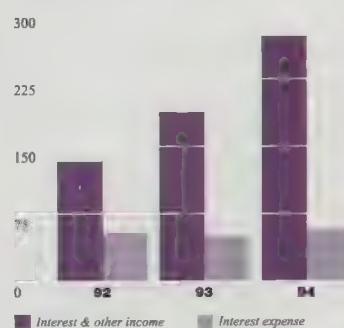
Research and development spending grew by 15% from 1993 to 1994, as the Company continued to invest in internal programs, particularly for microprocessor technology development. Increased spending for strategic marketing programs, including media merchandising and the Company's Intel Inside® cooperative advertising program, drove the 24% increase in marketing, general and administrative expenses from 1993 to 1994. Spending in the fourth quarter of 1994 included the greater part of an \$80 million Pentium processor merchandising program.

Interest expense increased by \$7 million from 1993 to 1994, primarily due to higher average interest rates on borrowings, partially offset by higher interest capitalization resulting from increased facility construction programs. The decrease in interest expense from 1992 to 1993 was mainly due to lower average interest rates on borrowings.

Interest and other income increased by \$85 million from 1993 to 1994, mainly due to higher average rates on investments in

### Other income and expense

(Dollars in millions)



1994, gains related to the settlement of various insurance claims in 1994, and higher foreign exchange gains and investment balances in 1994. Interest and other income in 1993 includes gains of \$27 million from the sale of certain foreign benefits related to an expansion in Ireland. Interest and other income in 1992 was reduced by a \$15 mil-

lion charge to income to cover damages payable to Advanced

Micro Devices, Inc. (AMD) as part of an arbitration decision.

It is the general practice of the Company to enter into investments and corresponding interest rate swaps to enhance the yield on its investment portfolio without increasing risk. The Company enters into forward contracts, options and swaps to hedge currency, market and interest rate exposures (see "Notes to Consolidated Financial Statements"). Gains and losses on these instruments are offset by those on the underlying hedged transactions; as a result, there was

# Management's discussion and analysis

*of financial condition and results of operations*

no material net impact on the Company's financial results during 1992-1994.

The effective income tax rate rose to 36.5% in 1994 compared to 35.0% and 32.0% in 1993 and 1992, respectively. The rate increases from 1993 to 1994 resulted from the fact that tax credits have not grown as rapidly as overall pretax income. This factor, together with an increase in the federal statutory rate, also led to an increase in the effective tax rate from 1992 to 1993. The adoption of SFAS No. 109, "Accounting for Income Taxes," effective at the beginning of 1993, had no material impact on Intel's financial statements.

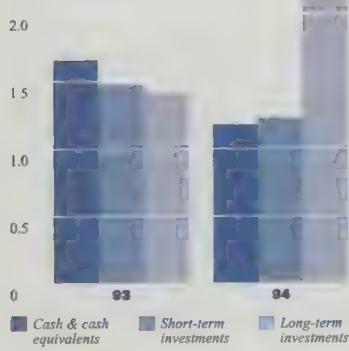
## Financial condition

The Company's financial condition remains very strong. As of December 31, 1994, total cash and short- and long-term investments totaled \$4.54 billion, essentially unchanged from December 25, 1993. Cash generated from operating activities rose to \$2.98 billion in 1994 compared to \$2.80 billion and \$1.64 billion in 1993 and 1992, respectively.

Investing activities consumed \$2.90 billion in cash during 1994, compared to \$3.34 billion during 1993 and \$1.48 billion during 1992. Capital expenditures increased substantially in both 1993 and 1994, as the Company continued to invest in the property,

### Cash and investments

(Dollars in billions)



plant and equipment needed for future business requirements, including manufacturing capacity. The Company expects to expend approximately \$2.9 billion for capital additions in 1995 and had committed approximately \$1.41 billion for the construction or purchase of property, plant and equipment as of December 31, 1994.

The Company used \$557 million for financing activi-

ties in 1994, while \$352 million and \$168 million were provided in 1993 and 1992, respectively. Major financing applications of cash in 1994 included stock repurchases of \$658 million, including \$65 million for put warrant exercises, and the early retirement of the Company's 8 1/8% debt. Sources of financing in 1993 included the Company's public offering of the 1998 Step-Up Warrants, which resulted in proceeds of \$287 million.

As part of its authorized stock repurchase program, the Company had the potential obligation at the end of 1994 to buy back 12.5 million shares of its Common Stock at an aggregate price of \$744 million under outstanding put warrants.

Other sources of liquidity include combined credit lines and authorized commercial paper borrowings of \$1.74 billion, only \$68 million of which was outstanding at December 31, 1994.

The Company also maintains the ability to issue an aggregate of approximately \$1.4 billion in debt, equity and other securities under SEC shelf registration statements. The Company believes that it has the financial resources needed to meet business requirements in the foreseeable future, including capital expenditures, strategic operating expenses, the dividend program and the Pentium processor replacement program.

## Outlook

Future trends for revenue and profitability continue to be difficult to predict. The Company faces a number of risks and uncertainties, including business conditions and growth in the personal computer industry and general economy; competitive factors, including rival chip architectures, imitators of the Company's key microprocessors, and price pressures; manufacturing capacity; and ongoing litigation involving Intel intellectual property.

Intel believes that the \$475 million pretax charge taken in the fourth quarter to cover the divide problem in the floating point unit of the Pentium processor will be sufficient to cover all associated replacement and inventory costs. The Company has completed a full manufacturing transition to the updated Pentium processor.

Based on the current case law, Intel's competitors can design microprocessors that are compatible with Intel microprocessors and avoid Intel patent rights through the use of foundry services that have licenses with Intel. Furthermore, as part of a recent agreement between Intel and AMD to settle all outstanding legal disputes between the two companies, Intel licensed AMD to copy the microcode in the Intel386 and Intel486 microprocessors. However, AMD agreed that it has no right to copy the microcode in the Pentium processor and future microprocessors. The net effect of this situation (i.e., case law and the AMD settlement) is that while it is possible for competitors to imitate the functionality of Intel processors, future imitations are not expected to be as close an imitation as were the Am386\* and Am486\* products from AMD. Competitors' products may add features and increase performance.

Management, including internal counsel, does not believe that the outcome of lawsuits currently facing Intel will have a material adverse effect on the Company's financial position or overall trends in results of operations (see "Contingencies" in "Notes to Consolidated Financial Statements"). However, were an unfavorable ruling to occur in any quarterly period, there exists the possibility of a material impact on the net income of that period. Management believes, given the Company's current liquidity and cash and investments balances, that even an adverse judgement would not have a material impact on cash and investments or liquidity.

As part of its strategic goal to double performance at major system price points, the Company cut microprocessor prices aggressively and systematically in 1994, and this trend may continue in 1995. Future distortion of price maturity curves could occur as imitation products enter the market in significant volume or alternative

architectures gain market acceptance. The outlook for Pentium processor shipments in 1995 remains dependent on several business factors, including continued success in the manufacturing ramp and market demand, including microprocessor product mix.

Gross margin percentage trended downward during 1993 and 1994, although gross margin dollar contribution has generally continued to increase on a quarterly basis. Except for the one-time charge for the Pentium processor divide problem, the factors impacting cost of sales growth (discussed above) are expected to continue. Research and development and marketing spending is expected to continue to grow, as the Company regards these expenditures as critical to future business success.

The Company expects its tax rate to increase to 37% for 1995.

Intel's stock price is subject to significant volatility. If revenues or earnings fail to meet expectations of the investment community, there could be an immediate and significant impact on the trading price for the Company's stock. Because of stock market forces beyond Intel's control and the nature of Intel's business, such shortfalls can be sudden.

The Company believes it has the product portfolio and financial and technological resources necessary for continued success, but revenue and profitability trends cannot be precisely determined at this time.

## Financial information by quarter (unaudited)

(in millions—except per share and price data)

### 1994 for quarter ended

	December 31	October 1	July 2	April 2
Net revenues	\$ 3,228	\$ 2,863	\$ 2,770	\$ 2,660
Cost of sales	\$ 2,023	\$ 1,273	\$ 1,156	\$ 1,124
Net income	\$ 372 <sup>(A)</sup>	\$ 659	\$ 640	\$ 617
Earnings per share	\$ .86	\$ 1.52	\$ 1.46	\$ 1.40
Dividends per share <sup>(B)</sup> Declared	\$ .06	\$ .06	\$ .06	\$ .05
Paid	\$ .06	\$ .06	\$ .05	\$ .05
Market price range Common Stock <sup>(C)</sup> High	\$ 66.13	\$ 67.25	\$ 70.63	\$ 72.25
Low	\$ 57.81	\$ 56.50	\$ 57.50	\$ 61.25
Market price range Step-Up Warrants <sup>(C)</sup> High	\$ 15.00	\$ 16.00	\$ 18.44	\$ 19.50
Low	\$ 12.31	\$ 13.00	\$ 13.00	\$ 15.13

(in millions—except per share and price data)

### 1993 for quarter ended

	December 25	September 25	June 26	March 27
Net revenues	\$ 2,389	\$ 2,240	\$ 2,130	\$ 2,023
Cost of sales	\$ 935	\$ 833	\$ 766	\$ 718
Net income	\$ 594 <sup>(D)</sup>	\$ 584	\$ 569	\$ 548
Earnings per share	\$ 1.35	\$ 1.33	\$ 1.30	\$ 1.24
Dividends per share <sup>(B)</sup> Declared	\$ .05	\$ .05	\$ .05	\$ .05
Paid	\$ .05	\$ .05	\$ .05	\$ .05
Market price range Common Stock <sup>(C)</sup> High	\$ 73.25	\$ 68.75	\$ 58.75	\$ 59.94
Low	\$ 56.25	\$ 50.00	\$ 43.69	\$ 43.25
Market price range Step-Up Warrants <sup>(C)</sup> High	\$ 19.94	\$ 17.63	\$ 14.31	\$ 14.69
Low	\$ 13.75	\$ 11.25	\$ 9.44	\$ 13.13

<sup>(A)</sup> Net income for the fourth quarter of 1994 was impacted by a \$475 million pretax charge to revenue and cost of sales to cover replacement and other costs associated with a divide problem in the floating point unit of the Company's Pentium processor.

<sup>(B)</sup> Intel plans to continue its dividend program. However, dividends are dependent on future earnings, capital requirements and financial condition.

<sup>(C)</sup> Intel's Common Stock (symbol INTC) and 1998 Step-Up Warrants (symbol INTCW) are traded on Nasdaq and quoted in the Wall Street Journal and other newspapers. Intel's Common Stock also trades on the Zurich, Basel and Geneva, Switzerland exchanges. At December 31, 1994, there were approximately 39,900 holders of Common Stock. All stock and warrant prices are closing prices per the Nasdaq National Market System.

<sup>(D)</sup> Interest and other income for the fourth quarter of 1993 included gains of \$27 million from the sale of certain foreign benefits related to the Company's Ireland expansion.

# Corporate directory

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Chairman of the Board

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President and  
Chief Executive Officer

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Executive Vice President and  
Chief Operating Officer

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Chairman  
Paramitius Foundation  
A private foundation

D. James Guzy <sup>2 5</sup>  
Chairman  
Arbor Corporation  
A limited partnership

Max Palevsky <sup>2 4</sup>  
Industrialist

Arthur Rock <sup>1 2 3 4 5</sup>  
Principal of Arthur Rock  
and Company  
A venture capital firm

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Director, former President  
and Chief Operating Officer  
ALZA Corporation  
A drug delivery company

Leslie L. Vadasz  
Senior Vice President  
Director, Corporate Business  
Development

David B. Yoffie <sup>2 4</sup>  
Max and Doris Starr  
Professor of International  
Business Administration  
Harvard Business School

Charles E. Young <sup>1</sup>  
Chancellor  
University of California  
at Los Angeles

<sup>1</sup> Member of the Audit & Finance Committee  
<sup>2</sup> Member of the Compensation Committee  
<sup>3</sup> Member of the Executive Committee  
<sup>4</sup> Member of the Nominating Committee  
<sup>5</sup> Member of the Stock Option Committee  
\* Committee Chairman

## Directors Emeriti

Richard Hodgson  
Industrialist

Sanford Kaplan  
Retired corporate executive

## Corporate Officers

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Chief Executive Officer

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Chief Operating Officer

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General Manager  
Microprocessor Products Group

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General Manager,  
Intel Products Group

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Director, Corporate Strategy

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Director, Sales

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General Manager, Technology  
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Semiconductor Products Group

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Development

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Microprocessor Products Group

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Microprocessor Division

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Corporate Marketing Group

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Technology Development

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Home Products Group

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General Manager,  
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Manufacturing Group  
Plant Manager, Fab 5

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Technology and  
Manufacturing Group  
Plant Manager, Fab 12

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Sales  
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Components Manufacturing

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and Manufacturing

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Intel Products Group

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Manufacturing Group  
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Technology Lab

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President, Intel Japan K.K.

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Director,  
Tax, Customs and Licensing

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Embedded Processor Division

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General Manager,  
European Operations

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Sales  
General Manager,  
Asia-Pacific Operations

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Technology and  
Manufacturing Group  
Director,  
Corporate Quality Network

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Microprocessor Products Group  
General Manager,  
PCI Components Division

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Technology and  
Manufacturing Group  
General Manager, Technology  
Manufacturing Engineering

Keith L. Thomson  
Vice President  
Technology and  
Manufacturing Group  
Oregon Site Manager

Earl L. Whetstone  
Vice President  
Sales  
Director,  
Americas Sales and Marketing

Marcus T. Wilson  
Vice President  
Semiconductor Products Group  
General Manager, Marketing

## Intel Fellows

Mark T. Bohr  
Technology and  
Manufacturing Group  
Director of Process  
Architecture and Integration,  
Portland Technology Development

John H. Crawford  
Microprocessor Products Group  
Director,  
Microprocessor Architecture

Kevin C. Kahn  
Intel Architecture Laboratories  
Director, Software Architecture

Peter D. MacWilliams  
Intel Architecture Laboratories  
Director, Architecture Development

Eugene S. Meieran  
Technology and  
Manufacturing Group  
Director,  
Manufacturing Strategy Support

Frederick J. Pollack  
Microprocessor Products Group  
Director, Measurement,  
Architecture and Planning

Justin R. Rattner  
Intel Products Group  
Director of Technology,  
Scalable Systems Division

Richard B. Wirt  
Intel Architecture Laboratories  
Director,  
Software Technology Lab

Leo D. Yau  
Technology and  
Manufacturing Group  
Director of Innovative Technology  
Modules, Portland Technology  
Development

## Stockholder information

### **Form 10-K**

If you would like to receive, at no charge, a copy of the Corporation's Form 10-K as filed with the Securities and Exchange Commission, or any other Intel financial literature, you may contact:

#### ***Harris Trust and Savings Bank***

(800) 298-0146

#### ***All other Intel literature***

(800) 548-4725

#### ***Transfer agent and registrar***

Harris Trust and Savings Bank

311 West Monroe, 11th Floor

P.O. Box 755

Chicago, IL 60690

Stockholders and Warrantholders may call (800) 298-0146 or (312) 461-4660 with any questions regarding transfer of ownership of Intel stock and warrants.

### ***Dividend Reinvestment/***

### ***Stock Purchase Plan***

Harris Trust and Savings Bank

Intel Dividend Reinvestment/

Stock Purchase Plan

P.O. Box A3309

Chicago, IL 60690

Call (800) 298-0146 or

(312) 461-4660 regarding the Dividend Reinvestment/Stock Purchase Plan.

### ***Independent auditors***

Ernst & Young LLP

San Jose, Calif.

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# Info



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